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S E C R E T SECTION 01 OF 03 BAGHDAD 003943

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TAGS: [PREL](#) [KCOR](#) [PREL](#) [PGOV](#) [IZ](#)

SUBJECT: ALLEGATIONS OF CORRUPTION IN THE MINISTRY OF  
DEFENSE

Classified By: AMBASSADOR ZALMAY KHALILZAD FOR REASONS 1.4 (b), (c), AND (d).

[1](#)1. (U) Action request, see para 18.

[1](#)2. (S/NF) SUMMARY. Recent press accounts alleging massive fraud at the Iraqi Ministry of Defense (MoD) -- most notably implicating former Defense Minister Hazem Shaalan -- repeat allegations that have been made for some time. Embassy, IRMO, and MNSTC-I plan to work closely with the MoD and ITG to audit past MoD contracts for clear evidence of wrongdoing, seek to determine whether it is possible to retrieve any cash from poorly-executed contracts (or corruption), and ensure that sound contracting and auditing procedures are in place and followed. END SUMMARY.

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BACKGROUND  
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[1](#)3. (S/NF) Over the past week, allegations of fraud at the MoD have resurfaced in the press, repeating old rumors that are rife with accounts of secret deals, political machinations, and even murder. Most of these charges involve the former Ministry of Defense (MoD) Director General (DG) for Acquisitions and Logistics, Ziyad Tariq Ahmed Cattan, who served under Minister of Defense Hazem Shaalan and for a short time under Minister of Defense Saadoun al-Dulime, who had him removed from office.

[1](#)4. (S/NF) As far as we are aware, any money allegedly stolen, misappropriated, or utilized in suspect contracting was all Iraqi. No U.S. or other foreign supplied funds are thought to be involved.

[1](#)5. (S/NF) The amounts allegedly involved vary between several hundred thousand dollars and \$1.2 billion to \$1.3 billion. The high figure is thought to be the total amount of funds that Shaalan and Cattan had access to for military acquisitions between 2004 and January 2005. Cattan became DG for Acquisitions in the summer of 2004 following the assassination of the previous DG.

[1](#)6. (S/NF) This money was used to pay for contracts to purchase defense equipment. Due to the "urgency" with which this equipment was needed, normal contracting procedures were not followed. The Iraqi MoD Inspector General (MoD/IG) attempted to monitor the contracts being signed but by October 2004 had been completely cut off from examining contracting information.

[1](#)7. (S/NF) The MoD/IG became concerned with what was going on and raised the issue with Cattan and Minister Shaalan. During the fall of 2004, several high ranking military and civilian officials in the MoD were assassinated. These killings were attributed to insurgent attacks, but employees of the Ministry were said to be very apprehensive regarding Cattan thereafter.

[1](#)8. (S/NF) At the end of 2004, the MoD/IG wrote in its year-end report that it could not give an opinion on contracting activities because it had been granted no access to the Ministry's information concerning them. This report was passed to the Commission on Public Integrity and is thought also to have been passed to the Board of Supreme Audit. Neither is known to have taken any immediate follow-up action. Some speculate this was to avoid any pre-election scandals. The Board of Supreme Audit did ultimately examine MoD contracting activities and issued a report in May 2005. Board of Supreme Audit activities continue to examine MoD contracting.

[1](#)9. (S/NF) Current Deputy Prime Minister Ahmed Chalabi did raise these allegations publicly prior to the January election, claiming that Shaalan was bilking the government out of millions of dollars by moving massive sums of cash to Jordan and Lebanon with little or no oversight. Following the election, Shaalan was replaced by Saadoun al-Dulime, who provided allegations concerning Cattan to Prime Minister Jaafari, who then removed Cattan. We believe that Cattan is currently in Poland (he is married to a Pole and holds dual

citizenship).

110. (S/NF) It is likely that many of the contracts (totaling \$1.2-1.3 billion) that were entered into involved substantial overpayments for substandard, used equipment that the Ministry did not need and was told by MNSTC-I not to buy, such as Polish helicopters, Pakistani pistols, mortars and vehicles, Egyptian vehicles and guns, and Chinese ammunition.

111. (S/NF) Those implicated in these allegations argue that everything was aboveboard. MoD officials claimed that movement of cash to banks in Jordan, Lebanon, and other countries was necessary to support letters of credit at a time when the Iraqi banking system was unable to provide such services for arms purchases.

112. (S/NF) Cattani, who is extremely intelligent, has already survived one investigation conducted by the Public Integrity Commission. He has a voluminous amount of documents that he points to as proof of the correct nature of all the deals he made. If pressed to explain the lax contracting procedures and lack of oversight, he will blame MNSTC-I and the CPA for appointing the wrong people and mismanaging the Ministry. In fact, he has already done so. He is also said to have curried favor with a wide variety of factions in Iraq, possibly by providing them with weapons, armored vehicles, and/or cash, and he is rumored to have connections on the fringes of the insurgency.

113. (S/NF) Others named as possible members of this "cabal" within the IIG include:

- Ghazi Yawir, IIG President and ITG Deputy President;
- Saad Bunnia, who was detained by MNF-I after he was found with \$6 million dollars in cash hidden in his home; he was released after convincing everyone that he was legitimately handling this money to deposit into Jordanian banks to pay for defense contracts;
- Mishal al-Sarrafi, a senior advisor to Shaalan who disappeared from Baghdad after being called to meet with a parliamentary committee investigating corruption; he is rumored to be in Jordan or Lebanon;
- Brusqa Shaways, who was the MoD's "contract manager" under Shaalan and is currently the number two official at the MoD; he is the brother of Deputy Prime Minister Rowsch Shaways. Within the past few days Shaways has left the MoD to become Chief of Staff to Masood Barzani, President of the Kurdish Regional Government.

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INVESTIGATION  
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114. (S/NF) In February 2005, the British Senior IRMO Advisor to the MoD analyzed financial the Ministry's 2004 transfers. This was not an in-depth audit but it did identify a large number of shortcomings and recommended a full audit by the appropriate Iraqi authorities. The report examined a total of 70 MoD procurement contracts with a total value of \$1,202,461,669. Among the largest were three contracts for military helicopters from Poland totaling nearly \$394 million, and one for armored bulldozers valued at over \$119 million. All of these were entered into in December 2004 and three of them went to one person.

115. (S/NF) The findings of this report were briefed to the MoD/IG and the President of the Board of Supreme Audits. The recommendations of the report included the following:

- With regard to the MoD's income and expenditures, the investigation found no evidence of fraud, impropriety or significant inaccuracies, but recommended a full audit be conducted.

- Urgent consideration should be given to developing and introducing a more robust program of financial control within the MoD, with a new IRMO advisor position established to assist.

- Despite the lack of evidence of fraud based on this fairly superficial examination, a summary of the report noted "it certainly appears that there is a high likelihood of corruption in the MoD. Investigations to confirm or refute such corruption should be undertaken by the MoD/IG and (an) appropriate Iraqi government appointed external audit team."

116. (S/NF) It is likely that this report and other information provided to Iraqi government officials by U.S. Mission Iraq led to the current Iraqi investigations and the findings that have been reported in the press.

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NEXT STEPS  
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117. (S/NF) Mission will be working with UK and ITG

interlocutors to follow up on initial investigation into the allegations of malfeasance at the MoD. Throughout the process we will pursue, through a variety of channels, information on whether money improperly obtained through contract or other fraud can be found in overseas accounts of key former MoD officials, including Cattani and Sarraf.

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SUGGESTED PRESS POINTS  
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18. (U) Action Request. Embassy requests Department concurrence on the following as agreed Washington and Mission talking points.  
Begin Points:

-- We have serious concerns regarding reports of fraud in the Iraqi Ministry of Defense.

-- Investigations to date of these allegations indicate that none of the money involved was provided by the United States or any other foreign country. The money involved is all Iraqi money.

-- We have long been concerned that acquisition procedures at the Ministry have been lax and susceptible to fraud, and have raised this with senior Iraqi government officials on many occasions.

-- The Iraqi government has taken our concerns seriously and has launched investigations. As a result, many of those implicated have been dismissed from their positions and some face criminal charges brought by the Iraqi authorities.

-- We understand that investigations and audits by Iraqi government anti-corruption entities continue.

-- We cannot confirm the amounts cited in the recent reports of these allegations. Inquiries concerning this question should be directed to the Iraqi government officials who are conducting this investigation.

-- We will continue to support Iraqi efforts to investigate these allegations and, if substantiated, hope to see that those responsible are tried and convicted for their crimes in Iraqi courts.

-- In addition, we remain committed to working with the Iraqi government to build capacity in their ministries to permit them to conduct the business of government transparently and effectively.

End Points.  
Khalilzad